

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-11 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 PA-02 PRS-01 L-03 H-02 AGR-10 /131 W

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R 201753Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9179

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: REACTION TO EXPENDITURE WHITE PAPER

REF: LONDON 2601

SUMMARY. REACTION TO THE GOVERNMENT'S PUBLIC EXPENDITURE

WHITE PAPER HAS BEEN LOUD, PAINED AND GENERALLY PREDIC-

TABLE. THE LABOR LEFT SEES THE CUTS IN SPENDING AS A

BETRAYAL OF THE PARTY'S ELECTION PROMISES AND THE TORIES

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AS TOO LITTLE AND TOO LATE. INDIVIDUAL INTEREST GROUPS

EACH HAD STRONG ARGUMENTS FOR EXCLUDING THEIR PROGRAMS FROM THE CHANCELLOR'S AXE. EDITORIAL REACTION IS FAR FROM UNIFORM BUT SYMPATHIZES WITH THE DIFFICULT CHOICES CONFRONTING THE CHANCELLOR. HOWEVER, SOME ECONOMIC COMMENTATORS ARE SKEPTICAL ABOUT THE ACTUAL IMPACT OF THE CUTS. END SUMMARY.

1. THE FOLLOWING PARAGRAPHS ARE INTENDED TO CONVEY SOME OF THE FLAVOR OF THE REACTION TO THE PUBLICATION OF THE ANNUAL GOVERNMENT WHITE PAPER ON PUBLIC EXPENDITURE (REFTEL).

2. THE SHADOW CHANCELLOR, SIR GEOFFREY HOWE, WAS QUOTED AS STATING "MR. HEALEY HAS CONDEMNED HIS OWN PERFORMANCE IN THE VERY LANGUAGE THAT MRS. THATCHER AND I HAVE BEEN USING." HE WENT ON TO CRITICIZE THE WHITE PAPER FOR ITS HIGH LEVELS ON PUBLIC BORROWING, ITS CONTEMPLATION OF EVEN HIGHER TAXES AND ITS DELAY IN IMPLEMENTATION OF THE CUTS UNTIL 1977/8.

3. LIBERAL PARTY SPOKESMAN ON INDUSTRY. RICHARD WAINWRIGHT, DESCRIBED THE WHITE PAPER AS "THE PRICE OF FOUR YEARS' DEBAUCHERY CONDUCTED ON TICK" (CREDIT). WITHIN THE LABOR PARTY, THE LEFT WING TRIBUNE GROUP ISSUED A STATEMENT LABELLING THE WHITE PAPER AS A "DOCUMENT OF SHAME." IT CONTINUED "IT (THE WHITE PAPER) IS THE HANDMAIDEN OF THE CITY, THE CONFEDERATION OF BRITISH INDUSTRY AND OTHER ENEMIES OF LABOR IN THE BRITISH ESTABLISHMENT. . . WE REJECT EMPHATICALLY THE POLITICS, THE ECONOMICS AND THE PHILOSOPHY BEHIND THE WHITE PAPER." DESPITE THIS STRONG LANGUAGE. WHEN TRIBUNE GROUP MEMBER NORMAN ATKINSON WAS ASKED IN A TELEVISION INTERVIEW WHETHER THE GROUP WOULD DESERT THE GOVERNMENT IN PARLIAMENT, HE REPLIED THAT THIS WOULD NOT OCCUR SINCE THEY HAD NO DESIRE TO SEE MRS. THATCHER AS PRIME MINISTER. RATHER, THE TRIBUNE GROUP SAW ITS TASK AS INCREASING ITS INFLUENCE WITHIN THE PARTY, ESPECIALLY THE TRADE UNIONS, IN ORDER TO REVERSE THE POLICIES OUTLINED IN THE WHITE PAPER.

4. THE CONFEDERATION OF BRITISH INDUSTRY DESCRIBED THE UNCLASSIFIED

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CUTS ENVISAGED IN THE WHITE PAPER "AS A STEP IN THE RIGHT DIRECTION" BUT CRITICIZED THE GOVERNMENT FOR TAKING TOO LARGE A SHARE OF NATIONAL OUTPUT LEAVING TOO LITTLE FOR PRIVATE INVESTMENT. IT CALLED FOR THE SPENDING CUTS TO BE BROUGHT FORWARD INTO THE PRESENT FISCAL YEAR.

5. WHILE THE TRADES UNION CONGRESS HAS BEEN UNCHARACTERISTICALLY SILENT ON THE WHITE PAPER, INDIVIDUAL UNIONS,

ESPECIALLY THOSE REPRESENTING PUBLIC SECTOR EMPLOYEES,
HAVE VOICED LOUD CRITICISM OF THE PLANNED REDUCTIONS IN
OUTLAYS. SEE SEPTTEL FOR DETAILS OF UNION REACTION.

6. THE QUALITY PRESS GENERALLY SYMPATHIZED WITH THE
CHANCELLOR'S DECISIONS. THE FINANCIAL TIMES HEADLINED
ITS EDITORIAL "SEMI CREDIBLE, SEMI ADEQUATE". THE GUARD.
IAN ENTITLED THEIRS "A MAN'S GOT TO DO WHAT A MAN'S
GOT TO DO". IT GENERALLY AGREES WITH THE CHANCELLOR'S
PRIORITY FOR IMPROVING INDUSTRIAL PERFORMANCE BUT CALLS
FOR ABANDONING THE BLANKET PROVISION OF PUBLIC SERVICES

SPIERS

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PASS TREAS & FRB

TO RICH AND POOR ALIKE BY THE GOVERNMENT THE TIMES HEAD-
LINES ITS EDITORIAL "SO THE PARTY IS OVER" AND IS ENCOUR-
AGED THAT "THE GOVERNMENT INTENDS TO COME TO GRIPS WITH
THE PROBLEM IN A REALISTIC WAY."

7. ECONOMIC COMMENTATORS PETER JAY IN THE TIMES AND
SAMUEL BRITTAN IN THE FINANCIAL TIMES TAKE A SOMEWHAT
JAUNDICED VIEW OF THE ECONOMICS UNDERLYING THE WHITE PA-
PER. JAY REVIEWS PUBLIC SPENDING SINCE 1970 AND PER-
CEIVES IMPENDING BANKRUPTCY AS THE RESOURCES REQUIRED TO
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SERVICE THE BURGEONING PUBLIC DEBT ABSORB AN INCREASING
SHARE OF AVAILABLE INCOME. EXTRAPOLATING FROM THE WHITE
PAPER DATA AND ASSUMPTIONS. JAY CALCULATES THAT AFTER ALL
PUBLIC CLAIMS ON ADDITIONAL RESOURCES GENERATED DURING
THE 1974-79 PERIOD ARE SATISFIED, JUST 0.2 PERCENT OF
GROSS DOMESTIC PRODUCT WILL BE LEFT TO COVER ADDITIONS TO
PRIVATELY FINANCED PRIVATE CONSUMPTION. FOR HIS PART,
BRITTAN IS SKEPTICAL OF THE GOVERNMENT'S ABILITY TO CUT
THE GROWTH OF PUBLIC SPENDING. HE POINTS TO THE POOR
FORECASTING RECORD OF PREVIOUS /WHITE PAPERS BUT ADDS THAT
THE CURRENT CLIMATE SHOULD FOSTER CRITICAL EXAMINATION OF
EXISTING PROGRAMS. HE SUPPORTS THE EMPHASIS ON INVEST-
MENT BUT STATES THAT THE GOVERNMENT ERRED IN NOT POINT-
ING OUT THE NEED FOR A DECLINE IN REAL WAGES BEFORE TAXES
AS A PRECONDITION FOR RETURNING TO NORMAL LEVELS OF UNEM-
PLOYMENT WITHOUT INFLATION.

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Disposition Event:
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